

COMPLIANCE DIVISION

HEADQUARTERS PERSONNEL – NASHVILLE

Mike Igney, Assistant Commissioner
 Chris Adams, CFSA, CFE, Chief Administrator
 Christina Coleman, Program Administrator
 Alan Smith, Financial Analyst

APPLICATIONS

Mortgage, Industrial Loan & Thrift and Insurance Premium Finance

Carl Scott, CFSA, Director
 David Gaines, Financial Analyst
 Melody Johnson, Financial Analyst

Check Cashing, Deferred Presentment, Money Transmitter, and Title Pledge

Stephen Henley, CPA, Director
 Christy Beadle, Financial Analyst
 Jenohn Moore, Financial Analyst

EXAMINATION PERSONNEL

WEST TENNESSEE DISTRICT

Georgia Cannon, Regional Manager
 Jay Larson, Supervisor
 Patrick Somers, Supervisor
 Robert Hornbreak
 Marilyn Schroepfel, CFSA
 Calvin Stout

Kamela Settles
 Alisa Logan
 Kevin Hicks
 Kerry Rial
 Rich Regan
 Joshua Evans

MIDDLE TENNESSEE DISTRICT

Cathy Wilkerson, Supervisor
 Robert Campbell
 Michael Cranor
 Bart Daughdrill
 Chad Haney

Gene Smith, CFSA
 Michael Wiggins
 Marcia Jacks
 Robert Doyle

EAST TENNESSEE DISTRICT

Brian Williams, Regional Manager
 Frank Barnes, CFSA, Supervisor
 Will Justice
 Keith Sharp
 James Worley
 Jack Lay, CFE
 Elizabeth Harrell

James Waterman
 James Simmons
 John Stewart
 Nicole Chamblee
 David Kelly
 Dennis Woodmore, CFSA

The **Compliance Division** is responsible for the licensing and regulatory supervision of the following types of financial institutions operating in Tennessee:

- Industrial Loan & Thrift Companies
- Insurance Premium Finance Companies
- Residential Mortgage Lenders, Brokers and Servicers
- Check Cashing Companies
- Deferred Presentment Service Companies
- Money Transmitters
- Title Pledge Lenders

In addition, the Division is responsible for the registration of all Mortgage Loan Originators conducting business in Tennessee and for the regulatory oversight of the institutions with which they affiliate.

Through a comprehensive examination program, all of the above industries are subject to periodic examination by the Division's field examiners. The Compliance Division's examinations are designed to test and enforce compliance with Tennessee laws, as well as Federal regulations. These laws were written in order to protect the consumer by limiting the amount of interest, loan charges and insurance charges that can be assessed as well as providing for specific disclosures to the customer regarding loan provisions. The field examiners also investigate consumer complaints and allegations of consumer fraud and usury.

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MILESTONES AND ACCOMPLISHMENTS

- **Consumers Benefit From Increased Regulatory Oversight**

In March 2004, the Compliance Division employed fourteen loan examiners responsible for the on-site examination of all non-depository financial institutions in Tennessee including mortgage lenders and brokers, industrial loan and thrift companies, insurance premium finance companies ("consumer finance" companies), deferred presentment companies ("payday lenders"), money transmitters, and check cashing companies. For the first time in 2005, title pledge lenders came under the Department's jurisdiction. Because of the Department's commitment to increase regulatory compliance through the examination of non-depository financial institutions, twenty-one additional loan examiner positions were added to the Division. The result is that exam penetration has been increased across industry types but particularly in the mortgage arena.

As a result of increased on-site examination, and other regulatory oversight of non-depository financial institutions, the Department has successfully returned to consumers more than \$1.5 million in refunds for the fiscal year ending June 30, 2006. Additionally, the Department was an active participant in a multi-state settlement reached with Ameriquest in 2006 that will return an additional estimated \$2.5 million to Tennessee consumers starting in 2007. This was the second major consumer settlement for the Department. In 2003, the Department also participated in a multi-state settlement with Household International that returned \$6.5 million to Tennessee consumers.

Through increased regulatory oversight, the Department is sending a clear and consistent message that, while credit availability is vital to Tennessee's economy and all of its citizens should have access, the extension of credit must be fair and equitable.

- **Amendments to the Tennessee Title Pledge Act ("Act")**

For the first time beginning November 1, 2005, title pledge lenders in Tennessee became subject to regulatory oversight by the Department. The Department successfully implemented a new program to license and regulate title pledge lenders.

The successful implementation of the amendments to the Act has resulted in the licensing of 703 title pledge lender locations throughout Tennessee as of December 31, 2006. Regulatory oversight by the Department is bringing the industry into compliance by enforcing statutory limits on the amount of interest and fees that can be charged a borrower. Tennessee consumers have also benefited through regulatory oversight that has prohibited the industry from charging various miscellaneous fees not authorized under the Act. Consumers have received refunds of unauthorized interest and fees.

In February of 2006, the Department provided a written report to the General Assembly. The report reviewed practices and certain financial information about the industry as it was prior to the amendments to the Act.

- **Tennessee Home Loan Protection Act of 2006 ("Act")**

The Department is in the process of implementing the provisions of, and examining for compliance with, the Tennessee Home Loan Protection Act which became effective January 1, 2007. The Act places limitations and restrictions on the making of high-cost home loans including defining high cost home loans; placing a cap on the points and fees that can be financed by the borrower; prohibiting the practice (known as "flipping") of making a high-cost home loan within 30 months of the making of an existing home loan when no reasonable benefit exists for the borrower; barring lending without regard for repayment ability; excluding prepayment penalties in certain instances; requiring disclosures to borrowers on available credit counseling; and granting the Department of Financial Institutions regulatory authority (including rulemaking and examination authority) and the power to issue cease and desist orders, assess civil money penalties up to \$10,000 per violation and require restitution to borrowers.

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INDUSTRIAL LOAN AND THRIFT COMPANIES

Consumer loan companies operate under the "Industrial Loan and Thrift Companies Act", codified as T.C.A. Title 45, Chapter 5. The stated purpose of the Act is to allow citizens to have the services of regulated lending institutions at rates and charges reasonably commensurate with economic realities. This Act authorizes those companies that obtain a certificate of registration to charge rates and fees higher than what may be charged under the State's General Usury statutes. While the Act allows higher interest rates, it also contains many consumer protection provisions particularly with respect to loan charges. In 2001, legislation was enacted that requires companies licensed under this Act to secure bonding. The bonding requirements are as follows: If the applicant proposes to make loans secured by a mortgage, the surety bond or letter of credit shall be in the amount of \$200,000. For all other applicants, the bond or letter of credit shall be in the amount of \$50,000. Only one bond or letter of credit is required for any registrant, irrespective of the number of employees or offices of such registrant.

Registration

To obtain a certificate of registration, an applicant must maintain a net worth of at least \$25,000 and demonstrate sufficient character to command the confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2006, there were 733 locations licensed under the Act.

Examinations

For fiscal year ending June 30, 2006, the Department conducted 812 examinations that resulted in refunds of \$1,030,024 to 48,353 consumers of the state. Special examinations are conducted as needed as a result of complaints filed with the Department's Consumer Resources Division.

INSURANCE PREMIUM FINANCE COMPANIES

The activities of Premium Finance Companies are governed by the "Premium Finance Company Act of 1980", codified as T.C.A. Title 56, Chapter 37. "Premium Finance Company" means a person engaged in the business of entering into premium finance agreements or acquiring premium finance agreements from other premium finance companies. "Premium finance agreement" means an agreement by which an insured, or prospective insured, promises to pay to a premium finance company the amount advanced, or to be advanced under the agreement to an insurer or to an insurance agent or producing agent in payment of premiums of an insurance contract, together with interest and a service charge as authorized and limited by this Chapter.

Registration

To obtain a license, an applicant must, pursuant to T.C.A. § 56-37-104(b), be competent and trustworthy, act in good faith, have a good business reputation, experience, training or education in this business. Furthermore, if the applicant is a foreign or domestic corporation, LLC, or limited partnership, it must be authorized to conduct business in this state. As of June 30, 2006, there were 67 companies licensed under the Act.

Examinations

The Department conducted 8 examinations for the period ending June 30, 2006 representing 11.94 percent of the licensed offices located in Tennessee.

RESIDENTIAL MORTGAGE LENDERS, BROKERS AND SERVICERS

The activities of Residential Mortgage Lending, Brokering, and Servicing companies are governed by the "Tennessee Residential Lending, Brokerage and Servicing Act of 1988", codified as T.C.A. Title 45, Chapter 13. T.C.A. § 45-13-



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103(a) expands this further by stating “no person shall act as a mortgage lender, mortgage loan broker, mortgage loan servicer, or mortgage loan originator in this state without first complying with the applicable licensing or registration requirements under this chapter.” Certain companies may be exempt under criteria explained in T.C.A. § 45-13-103. If the applicant proposes to make or service mortgage loans, the surety bond or irrevocable letter of credit shall be in the amount of \$200,000. For all applicants whose activities are limited to the brokering of mortgage loans, the surety bond or irrevocable letter of credit shall be in the amount of \$90,000. Only one bond or letter of credit is required for any licensee, irrespective of the number of employees or offices of such licensee.

License/Registration

To obtain a license or certificate of registration, an applicant must maintain a net worth of at least \$25,000 and demonstrate sufficient character to command the confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2006, there were 1,460 companies licensed under the Act. Additionally, with passage of amendments to the Residential Mortgage Lending, Brokerage and Servicing Act during the 2004 session of the General Assembly, the Department began registering individual mortgage loan originators effective January 1, 2005. As of June 30, 2006, there were 16,211 mortgage loan originators actively registered.

Examinations

For fiscal year ending June 30, 2006, the Compliance Division conducted 308 examinations of mortgage licensees that resulted in refunds of \$353,008 to 1428 consumers. Special examinations are also conducted as a result of consumer complaints.

CHECK CASHING COMPANIES

The activities of Check Cashing Companies are governed by the “Check Cashing Act of 1997” codified as Tennessee Code Annotated (T.C.A.) Title 45, Chapter 18. Retailers who cash checks incidental to their retail operations are exempt from the Act if their compensation for cashing checks does not exceed five percent of their gross receipts. See T.C.A. § 45-18-103(5).

Licensing

To obtain a check cashing license, an applicant must maintain a minimum net worth of \$25,000 per location and demonstrate sufficient character and experience to command confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2006, there were 488 licensed check casher locations in Tennessee.

Examinations

Examinations of licensed check cashers are conducted pursuant to T.C.A. § 45-18-113. For the fiscal year ending June 30, 2006, the Compliance Division of the Department performed 391 check cashing examinations resulting in refunds of \$411 to 30 customers.

DEFERRED PRESENTMENT SERVICE COMPANIES

The activities of the Deferred Presentment Services Companies are governed by the “Deferred Presentment Services Act” codified as Tennessee Code Annotated (T.C.A.) Title 45, Chapter 17.

Licensing

To obtain a deferred presentment services license, an applicant must maintain a minimum net worth of \$25,000 per location and demonstrate sufficient character and experience to command confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. Last year the Department approved 310 deferred presentment services license applications, and because companies must obtain a license for each location from which such business is conducted, there were 1,371 licenses as of June 30, 2006.

Examinations

For fiscal year ending June 30, 2006, the Department’s Compliance Division conducted 1,599 examinations of deferred presentment offices. Typically, the Department’s compliance examiners review a random sample of the licensee’s transactions by looking at the fees charged and the disclosures given to the customers. As a result, licensees made total refunds of \$49,304 to 1659 customers for charging excessive or unauthorized fees pursuant to T.C.A. § 45-17-115.

Annual Report Information

By September 1st of each year, licensees are required by T.C.A. § 45-17-119 to file with the Commissioner of Financial Institutions an Annual Report covering the licensee’s business activities as of the close of business on June 30. These reports include a balance sheet, statement of income and expense, as well as other statistical data consistent with generally accepted accounting principles. Below is a recapitulation of the 2006 annual reports for the purpose of reflecting the general results of the operations for the year ending June 30, 2006.

Annual Report Information for Fiscal Year Ending June 30, 2006

The following tabulation represents aggregate information from reports filed by 445 licensed companies. The Department did not require an annual report from companies that opened after June, 2006.

Total Assets	\$219,969,930
Total Liabilities	\$60,144,166
Net Worth	\$159,825,764

Total assets of the average sized company operating in Tennessee for 2006 was \$494,314. Seventy-two companies reported assets greater than \$500,000; 204 companies had assets of between \$100,000 and \$500,000; and the remaining 169 showed total assets of less than \$100,000. As with many of the small companies, funding for the business is supplied principally by the owners with total assets being comprised of 28 percent liabilities and 72 percent owner equity.

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Statement of Income and Expenses

The following information was compiled from the statements of income and expenses for the period of July 1, 2005 to June 30, 2006.

Total Operating Income	\$183,925,724
Salary Expense	\$55,529,246
Bad Debt Expense	\$17,036,140
Net Income (After Tax)	\$15,382,038

Of the 445 reporting companies, 123 reported operating losses and 50 reported net income of over \$100,000 for the period ending June 30, 2006. The average company made a profit of \$34,566.

Salaries are a major company expense, amounting to about 30 percent of total operating income. The average salary expense for each company was \$124,785.

Losses on receivables constitute another major industry expense. Bad debt expense represented approximately 9.25 percent of total operating income.

Effective June 7, 2005, T.C.A. § 45-17-112(i) of the Deferred Presentment Services Act allows licensees to assess a handling charge not to exceed \$30 if a check is returned from a payer financial institution due to insufficient funds, stop payment order or closed account. From the 2006 annual reports, 79 percent or 348 companies collected total handling charges of \$1,011,086 for fiscal year ending June 30, 2006.

As of June 30, 2006, the industry made a return on assets of 7 percent based on total assets and a return on equity of approximately 10 percent.

Transactional Data

The following transactional data was reported for the reporting period ending June 30, 2006:

Number of receivable transactions	5,063,705
Dollar amount of transactions during the year	\$1,196,866,871
Average size of receivable transactions	\$236

Number of transactions by size of check:

\$1 - \$150:	558,366
\$151 - \$250:	3,407,990
\$251 - \$500:	1,097,349

MONEY TRANSMITTERS

The activities of Money Transmitter companies are governed by the "Tennessee Money Transmitter Act of 1994", codified as T.C.A. Title 45, Chapter 7. There are exemptions that apply to certain government agencies, as well as business organizations. See T.C.A. § 45-7-204.

Licensing

Each applicant for a license must demonstrate, and each licensee must maintain, a net worth of not less than \$100,000 computed according to generally accepted accounting principles. Persons transmitting, or proposing to transmit, money shall have an additional net worth of \$25,000 per additional location or agent located in Tennessee, as applicable, to a maximum of \$500,000. The applicant must demonstrate such experience, character, and general fitness as to command the confidence of the public and warrant the belief that the business will be operated lawfully and fairly. As of June 30, 2006, there were 53 licensed money transmitters.

Examinations

Examinations of money transmitters are conducted pursuant to T.C.A. § 45-7-214. The Commissioner may accept, in lieu of an on-site examination, the examination report of an agency of another state, or a report prepared by an independent accounting firm, and reports so accepted are considered, for all purposes, as an official report of the Commissioner.

TITLE PLEDGE LENDERS

The activities of Title Pledge Lenders are governed by the "Tennessee Title Pledge Act", codified as T.C.A. Title 45, Chapter 15.

Licensing

To obtain a title pledge lender license, an applicant must maintain a minimum net worth of \$75,000 per location and demonstrate sufficient character and experience to command confidence of the public and warrant the belief that the applicant will operate its business lawfully and fairly. As of June 30, 2006, there were 630 licensed title pledge lenders.

Examinations

For fiscal year ending June 30, 2006, the Department's Compliance Division conducted 424 examinations of title pledge lender offices. Typically, the Department's compliance examiners review a random sample of the licensee's transactions by looking at the fees charged and the disclosures given to the customers. As a result, licensees made total refunds of \$123,677 to 356 customers for charging excessive or unauthorized fees pursuant to T.C.A. § 45-15-108.

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INDUSTRIAL LOAN AND THRIFT COMPANIES

Composite Annual Report
(Year Ending December 31, 2005)

Number of Offices Included in this Report	663
Number of Employees in State at Year-End	2,964

REGULATED ENTITIES PROFIT PERCENTAGE

RATE OF RETURN

Average Net Receivable	\$3,453,089,650
Net Income	\$61,653,212
Rate of Return	1.79%

ANALYSIS OF CHARGES ON LOANS

Charges Collected and/or Earned	\$579,388,227
Average Monthly Rate Collected	1.40%

ANALYSIS OF EXPENSE PER ACCOUNT

Average Number of Accounts Outstanding	1,251,704
Total Expenses	\$519,944,216
Average Monthly Expense per Account	\$34.62

STATEMENT OF INCOME AND EXPENSES

Total Operating Income	\$611,092,651
Total Expenses before Income Taxes	\$519,944,216
Income before Taxes	\$91,148,435

OTHER INFORMATION

Number of Loans Made During the Year	923,136
Dollar Volume of Loans Made During the Year	\$2,080,188,420
Bad Debts- Dollar Amount	\$155,918,797
Bad Debts- Number of Accounts	73,895

INDUSTRIAL LOAN AND THRIFT COMPANIES

Loans More Than \$300
(Year Ending December 31, 2005)

Number of Offices Included in this Report	120
Number of Employees in State at Year-End	1,119

REGULATED ENTITIES PROFIT PERCENTAGE

RATE OF RETURN

Average Net Receivable	\$380,252,146
Net Income	\$3,504,306
Rate of Return	0.92%

ANALYSIS OF CHARGES ON LOANS

Charges Collected and/or Earned	\$62,636,975
Average Monthly Rate Collected	1.37%

ANALYSIS OF EXPENSE PER ACCOUNT

Average Number of Accounts Outstanding	824,163
Total Expenses	\$66,638,840
Average Monthly Expense per Account	\$6.74

STATEMENT OF INCOME AND EXPENSES

Total Operating Income	\$72,296,337
Total Expenses before Income Taxes	\$66,638,840
Income before Taxes	\$5,657,497

OTHER INFORMATION

Number of Loans Made During the Year	766,632
Dollar Volume of Loans Made During the Year	\$2,038,207,683
Bad Debts- Dollar Amount	\$23,889,155
Bad Debts- Number of Accounts	7,769

INDUSTRIAL LOAN AND THRIFT COMPANIES

Loans Less Than \$300
(Year Ending December 31, 2005)

Number of Offices Included in this Report	543
Number of Employees in State at Year-End	1,845

REGULATED ENTITIES PROFIT PERCENTAGE

RATE OF RETURN

Average Net Receivable	\$3,072,837,504
Net Income	\$58,148,907
Rate of Return	1.89%

ANALYSIS OF CHARGES ON LOANS

Charges Collected and/or Earned	\$516,751,252
Average Monthly Rate Collected	1.40%

ANALYSIS OF EXPENSE PER ACCOUNT

Average Number of Accounts Outstanding	427,541
Total Expenses	\$453,305,376
Average Monthly Expense per Account	\$88.36

STATEMENT OF INCOME AND EXPENSES

Total Operating Income	\$538,796,314
Total Expenses before Income Taxes	\$453,305,376
Income before Taxes	\$85,490,938

OTHER INFORMATION

Number of Loans Made During the Year	156,504
Dollar Volume of Loans Made During the Year	\$41,980,737
Bad Debts - Dollar Amount	\$132,029,642
Bad Debts - Number of Accounts	66,126